

EARLHAM COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14
Governmental Fund Financial Statements:		
Balance Sheet	C	15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	16
Statement of Revenues, Expenditures and Changes in Fund Balances	E	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	18
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	19
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	20
Statement of Cash Flows	I	21
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	22
Statement of Changes in Fiduciary Net Assets	K	23
Notes to Financial Statements		24-33
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		34
Notes to Required Supplementary Information - Budgetary Reporting		35
Other Supplementary Information:	<u>Schedule</u>	
Non-major Governmental Funds:		
Combining Balance Sheet	1	36
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	37
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	38
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	39
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		40-41
Schedule of Findings		42-46

Earlham Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2007 Election)		
Mike Madren	President	2008
David Steward	Vice President	2007
Trish Hopkins	Board Member	2007
David Morford	Board Member	2008
Craig Hamilton	Board Member	2009

Board of Education
(After September 2007 Election)

Mike Madren	President	2008
David Morford	Vice President	2009
Kevin Curran	Board Member	2011
Neal Henley	Board Member	2011
Craig Hamilton	Board Member	2009

School Officials

Mike Wright	Superintendent	2008
Jodi Stroud	District Secretary and Business Manager	2008
Ahlers & Cooney, P.C.	Attorney	2008

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Earlham Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Earlham Community School District, Earlham Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Earlham Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 9, 2009 on our consideration of the Earlham Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required parts of the basic financial statements, but are supplementary

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Earlham Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for four years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

February 9, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Earlham Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,761,848 in fiscal 2007 to \$5,197,188 in fiscal 2008, while General Fund expenditures increased from \$4,842,693 in fiscal 2007 to \$5,162,241 in fiscal 2008. This resulted in an increase in the District's General Fund balance from \$629,359 in fiscal 2007 to a balance of \$659,306 in fiscal 2008, a 4.76% increase over the prior year.
- This is the first time in several years that there has been an increase in the General Fund year-end balance. The challenge for the District is to continue to stabilize or lower the General Fund spending so, it can continue to cash-flow the operations of the District.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Earlham Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Earlham Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Earlham Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Earlham Community School District Annual Financial Report

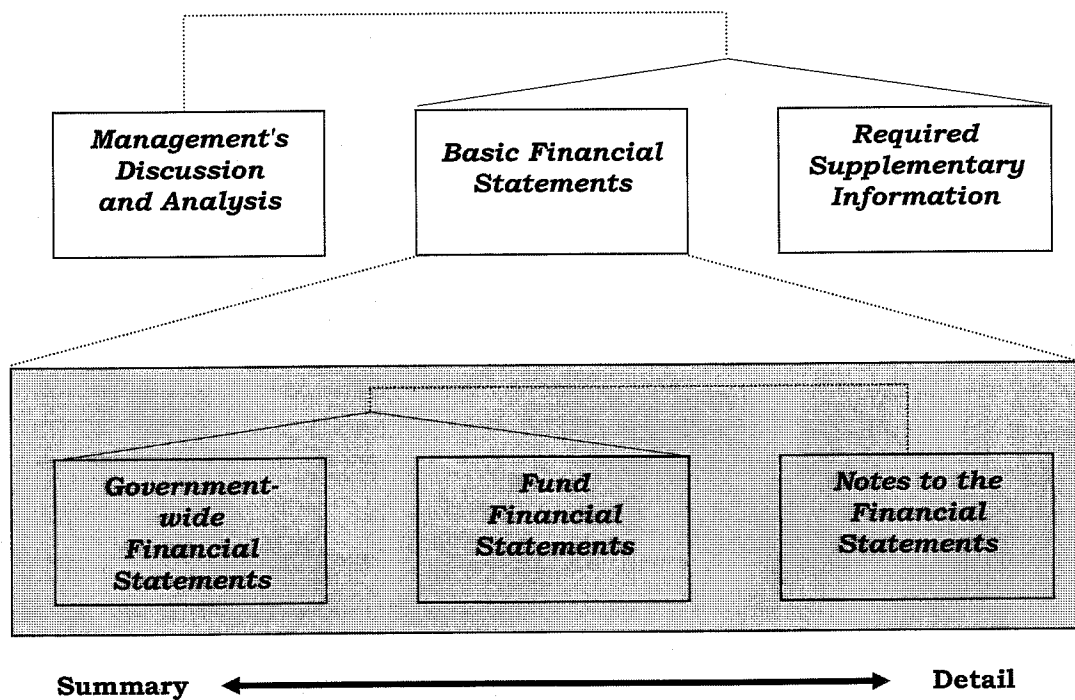


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust.

Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 3,803,468	4,034,417	13,913	12,908	3,817,381	4,047,325	-5.68%
Capital assets	6,812,832	6,309,960	128,823	122,684	6,941,655	6,432,644	7.91%
Total assets	10,616,300	10,344,377	142,736	135,592	10,759,036	10,479,969	2.66%
Long-term obligations	2,950,000	3,183,895	0	0	2,950,000	3,183,895	-7.35%
Other liabilities	2,646,293	2,643,609	4,427	4,382	2,650,720	2,647,991	0.10%
Total liabilities	5,596,293	5,827,504	4,427	4,382	5,600,720	5,831,886	-3.96%
Net assets:							
Invested in capital assets, net of related debt	3,862,832	3,126,065	128,823	122,684	3,991,655	3,248,749	22.87%
Restricted	608,649	857,064	0	0	608,649	857,064	-28.98%
Unrestricted	548,526	533,744	9,486	8,526	558,012	542,270	2.90%
Total net assets	\$ 5,020,007	4,516,873	138,309	131,210	5,158,316	4,648,083	10.98%

The District's combined net assets increased by 10.98%, or \$510,233, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the invested in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$248,415 or 28.98% from the prior year.

Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements increased approximately \$15,742, or 2.90%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2008 and 2007.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program revenues:							
Charges for services	\$ 530,581	542,930	249,827	230,821	780,408	773,751	0.86%
Operating grants and contributions and restricted interest	742,666	691,821	81,505	76,965	824,171	768,786	7.20%
General revenues:							
Property tax	1,910,586	1,748,697	0	0	1,910,586	1,748,697	9.26%
Local option sales and service tax	320,411	329,427	0	0	320,411	329,427	-2.74%
Unrestricted state grants	2,716,564	2,420,292	0	0	2,716,564	2,420,292	12.24%
Unrestricted investment earnings	68,000	68,017	159	219	68,159	68,236	-0.11%
Other	54,092	108,137	0	15,385	54,092	123,522	-56.21%
Transfers	(25,967)	0	25,967	0	0	0	0.00%
Total revenues	6,316,933	5,909,321	357,458	323,390	6,674,391	6,232,711	7.09%
Program expenses:							
Governmental activities:							
Instructional	3,779,008	3,518,824	0	0	3,779,008	3,518,824	7.39%
Support services	1,525,777	1,493,834	0	0	1,525,777	1,493,834	2.14%
Non-instructional programs	0	0	350,359	333,098	350,359	333,098	5.18%
Other expenses	509,014	647,069	0	0	509,014	647,069	-21.34%
Total expenses	5,813,799	5,659,727	350,359	333,098	6,164,158	5,992,825	2.86%
Change in net assets	503,134	249,594	7,099	(9,708)	510,233	239,886	112.70%
Net assets beginning of year	4,516,873	4,267,279	131,210	140,918	4,648,083	4,408,197	5.44%
Net assets at end of year	\$ 5,020,007	4,516,873	138,309	131,210	5,158,316	4,648,083	10.98%

In fiscal 2008, property tax, local option sales and services tax, and unrestricted state grants accounts for 78.32% of the revenue from governmental activities while charges for service, sales, and operating grants and contributions account for 92.69% of the revenue from business type activities.

The District's total revenues were approximately \$6.67 million of which \$6.32 million was for governmental activities and less than \$0.35 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 7.09% increase in revenues and a 2.86% increase in expenses. Unrestricted state grants increased \$296,272 to fund increases in revenues. The increase in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues, net of transfers for governmental activities were \$6,316,933 and expenses were \$5,813,799.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change	2008	2007	Change
			2008-07			2008-07
Instruction	\$ 3,779,008	3,518,824	7.39%	2,713,757	2,473,188	9.73%
Support services	1,525,777	1,493,834	2.14%	1,525,205	1,493,138	2.15%
Other expenses	509,014	647,069	-21.34%	301,590	458,650	-34.24%
Totals	<u>\$ 5,813,799</u>	<u>5,659,727</u>	<u>2.72%</u>	<u>4,540,552</u>	<u>4,424,976</u>	<u>2.61%</u>

- The cost financed by users of the District's programs was \$580,581.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$742,666.
- The net cost of governmental activities was financed with \$1,910,586 in property tax, \$320,411 in local option sales tax, \$2,716,564 in unrestricted state grants, \$68,000 in investment earnings, and \$54,902 in other general revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$357,458 and expenses were \$350,359. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Earlham Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,180,557, under last year's ending fund balances of \$1,415,718.

Governmental Fund Highlights

The General Fund has gone from a fund balance in FY 2007 of \$629,359 to a fund balance for FY 2008 of \$659,306 or an increase of 4.75%. This is a significant change from the severe decreases, we have seen over the last 5 years. It appears that, we are now at a point where there will be no major personnel changes, so we should just have to continue with the normal monitoring of the regular operating expenses.

The Capital Projects Fund balance decreased from \$592,987 in fiscal 2007 to \$307,600 in fiscal 2008. The decrease is attributable to decreased local option sales and services tax collected and increase in expenditures, in the fiscal year of 2008. The decrease is also, attributable to the purchase of 30 acres of land and the 4 classroom portable.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$131,210 at June 30, 2007 to \$138,309 at June 30, 2008, representing an increase of 5.41%.

The cash flow and the operating costs of the hot lunch fund are monitored closely to make sure the revenues from the hot lunch sales are adequate to cover increased labor, supply and transportation costs. The General Fund covers any shortfall of the hot lunch program. For FY 08, \$5,000 was transferred to cover hot lunch expenses.

BUDGETARY HIGHLIGHTS

The District's revenues were \$615,539 less than budgeted revenues, a variance of 8.44%. The decrease can be attributed to the District receiving less local and state monies than were originally anticipated.

Total expenditures were \$1,194,067 less than budgeted. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. During the year ended June 30, 2008, expenditures in the other expenditures functional area exceeded the amount budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008 the District had invested \$6,941,655, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$286,926.

The original cost of the District's capital assets was \$10,371,668. Governmental funds account for \$10,168,087 with the remainder of \$203,581 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$6,228,995 at June 30, 2008, compared to \$6,112,819 reported at June 30, 2007. This increase was the result of increase in Capital Projects expenditures for the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2008-07
Land	\$ 373,930	10,000	0	0	373,930	10,000	3639.30%
Buildings	6,228,995	6,112,819	0	0	6,228,995	6,112,819	1.90%
Improvements other than buildings	48,791	34,674	0	0	48,791	34,674	40.71%
Machinery and equipment	161,116	152,467	128,823	122,684	289,939	275,151	5.37%
Total	\$ 6,812,832	6,309,960	128,823	122,684	6,941,655	6,432,644	7.91%

Long-Term Debt

At June 30, 2008, the District had \$2,950,000 in general obligation, and other long-term debt outstanding. This represents a decrease of 7.3% from the prior year. (See figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2008	2007	2008-07
General obligation bonds	\$ 2,565,000	2,705,000	-5.2%
Capital loan note	385,000	470,000	-18.1%
Telephone lease	0	8,895	100.0%
Totals	\$ 2,950,000	3,183,895	-7.3%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Earlham Community School District is one of a few schools in the state that has seen consistent enrollment increases over the last several years and this continues to be the trend.
- Several other projects have been mentioned as improvements for the district such as renovation to the science classrooms and courtyard renovation into an outdoor classroom.
- Additional classroom space may be acquired by taking half of the shop area and splitting it into 2 classrooms.
- The challenge for the district is to prioritize the needs and look closely at the funding resources available from all funds.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jodi Stroud, Business Manager, Earlham Community School District, P.O. Box 430, Earlham, Iowa, 50072.

BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents:	\$ 1,507,080	7,528	1,514,608
Receivables			
Property tax:			
Delinquent	30,246	0	30,246
Succeeding year	2,082,460	0	2,082,460
Interfund	(271)	271	0
Accounts	35,942	666	36,608
Due from other governments	148,011	0	148,011
Inventories	0	5,448	5,448
Capital assets, net of accumulated depreciation(Note 5)	6,812,832	128,823	6,941,655
Total Assets	10,616,300	142,736	10,759,036
Liabilities			
Accounts payable	91,174	25	91,199
Salaries and benefits payable	449,277	0	449,277
Accrued interest payable	23,382	0	23,382
Deferred revenue:			
Succeeding year property tax	2,082,460	0	2,082,460
Unearned revenue	0	4,402	4,402
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	150,000	0	150,000
Capital loan note	90,000	0	90,000
Portion due after one year:			
General obligation bonds payable	2,415,000	0	2,415,000
Capital loan note	295,000	0	295,000
Total Liabilities	5,596,293	4,427	5,600,720
Net Assets			
Invested in capital assets, net of related debt	3,839,450	128,823	3,968,273
Restricted for:			
Market factor	2,014	0	2,014
Market factor incentives	4,704	0	4,704
Talented and gifted	45,632	0	45,632
Beginning teacher mentoring	1,494	0	1,494
Additional teacher contract day	291	0	291
Instrumental resale	773	0	773
Art resale	1,291	0	1,291
Elementary fund raiser	15,220	0	15,220
Staff lounge pop fund	2,582	0	2,582
Professional development	33,263	0	33,263
Capital projects	307,600	0	307,600
Management levy	89,790	0	89,790
Physical plant and equipment levy	81,257	0	81,257
Debt service levy	8,059	0	8,059
Other special revenue purposes	34,545	0	34,545
Unrestricted	552,042	9,486	561,528
Total Net Assets	\$ 5,020,007	138,309	5,158,316

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	Program Revenues			Net (Expense) Revenue		Total
	Charges for Expenses	Contributions and Restricted Interest	and Changes in Net Assets			
			Govern- mental Activities	Business- Type Activities		
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,604,251	334,553	497,439	(1,772,259)	0	(1,772,259)
Special instruction	539,737	13,218	30,386	(496,133)	0	(496,133)
Other instruction	635,020	182,810	6,845	(445,365)	0	(445,365)
	<u>3,779,008</u>	<u>530,581</u>	<u>534,670</u>	<u>(2,713,757)</u>	<u>0</u>	<u>(2,713,757)</u>
Support services:						
Student services	71,135	0	0	(71,135)	0	(71,135)
Instructional staff services	109,127	0	0	(109,127)	0	(109,127)
Administration services	624,642	0	0	(624,642)	0	(624,642)
Operation and maintenance of plant services	517,953	0	0	(517,953)	0	(517,953)
Transportation services	202,920	0	572	(202,348)	0	(202,348)
	<u>1,525,777</u>	<u>0</u>	<u>572</u>	<u>(1,525,205)</u>	<u>0</u>	<u>(1,525,205)</u>
Other expenditures:						
Long-term debt interest	148,598	0	0	(148,598)	0	(148,598)
AEA flowthrough	207,424	0	207,424	0	0	0
Depreciation(unallocated)*	152,992	0	0	(152,992)	0	(152,992)
	<u>509,014</u>	<u>0</u>	<u>207,424</u>	<u>(301,590)</u>	<u>0</u>	<u>(301,590)</u>
Total governmental activities	5,813,799	530,581	742,666	(4,540,552)	0	(4,540,552)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	350,359	249,827	81,505	0	(19,027)	(19,027)
Total business-type activities	<u>350,359</u>	<u>249,827</u>	<u>81,505</u>	<u>0</u>	<u>(19,027)</u>	<u>(19,027)</u>
Total	<u>\$ 6,164,158</u>	<u>780,408</u>	<u>824,171</u>	<u>(4,540,552)</u>	<u>(19,027)</u>	<u>(4,559,579)</u>
General Revenues and Transfers:						
Property tax levied for:						
General purposes				\$ 1,483,313	0	1,483,313
Debt service				267,912	0	267,912
Capital outlay				159,361	0	159,361
Local option sales and services				320,411	0	320,411
Unrestricted state grants				2,716,564	0	2,716,564
Unrestricted investment earnings				68,000	159	68,159
Other				54,092	0	54,092
Transfers				(25,967)	25,967	0
Total general revenues and transfers				<u>5,043,686</u>	<u>26,126</u>	<u>5,069,812</u>
Changes in net assets				503,134	7,099	510,233
Net assets beginning of year				<u>4,516,873</u>	<u>131,210</u>	<u>4,648,083</u>
Net assets end of year				\$ 5,020,007	138,309	5,158,316

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments:	\$ 1,103,064	199,168	204,848	1,507,080
Receivables:				
Property tax:				
Delinquent	21,932	0	8,314	30,246
Succeeding year	1,566,355	0	516,105	2,082,460
Accounts	33,107	0	2,835	35,942
Due from other governments	0	148,011	0	148,011
Total Assets	\$ 2,724,458	347,179	732,102	3,803,739
Liabilities and Fund Balances				
Liabilities:				
Interfund payable	\$ 271	0	0	271
Accounts payable	49,249	39,579	2,346	91,174
Salaries and benefits payable	449,277	0	0	449,277
Deferred revenue:				
Succeeding year property tax	1,566,355	0	516,105	2,082,460
Total liabilities	2,065,152	39,579	518,451	2,623,182
Fund balances:				
Reserved for:				
Market factor incentives	4,704	0	0	4,704
Talented and gifted	45,632	0	0	45,632
Beginning teacher mentoring	1,494	0	0	1,494
Additional teacher contract day	291	0	0	291
Professional development	33,263	0	0	33,263
Market factor	2,014	0	0	2,014
Debt service	0	0	8,059	8,059
School infrastructure supplement	0	89,375	0	89,375
Unreserved:				
Management fund	0	0	89,790	89,790
Physical plant and equipment levy	0	0	81,257	81,257
Other special revenue purposes	0	0	34,545	34,545
General fund	571,908	0	0	571,908
Capital Projects fund	0	218,225	0	218,225
Total fund balances	659,306	307,600	213,651	1,180,557
Total Liabilities and Fund Balances	\$ 2,724,458	347,179	732,102	3,803,739

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total fund balances of governmental funds (page 15)	\$ 1,180,557
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	6,812,832
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(23,382)
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(2,950,000)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 5,020,007</u></u>

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,383,450	320,411	527,136	2,230,997
Tuition	347,771	0	0	347,771
Other	121,096	12,675	177,976	311,747
State sources	3,201,874	107,514	0	3,309,388
Federal sources	142,997	0	0	142,997
Total revenues	5,197,188	440,600	705,112	6,342,900
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,589,742	0	0	2,589,742
Special instruction	539,737	0	0	539,737
Other instruction	481,751	0	174,236	655,987
	3,611,230	0	174,236	3,785,466
Support services:				
Student services	71,135	0	0	71,135
Instructional staff services	109,127	0	0	109,127
Administration services	613,574	11,250	800	625,624
Operation and maintenance of plant services	385,960	37,582	97,353	520,895
Transportation services	163,791	0	28,423	192,214
	1,343,587	48,832	126,576	1,518,995
Other expenditures:				
Facilities acquisitions	0	677,155	0	677,155
Long-term debt:				
Principal	0	0	233,895	233,895
Interest and fiscal charges	0	0	150,126	150,126
AEA flowthrough	207,424	0	0	207,424
	207,424	677,155	384,021	1,268,600
Total expenditures	5,162,241	725,987	684,833	6,573,061
Excess(deficiency) of revenues over(under)expenditures	34,947	(285,387)	20,279	(230,161)
Other financing sources(uses):				
Transfers in	0	0	116,067	116,067
Transfers out	(5,000)	0	(116,067)	(121,067)
Total other financing sources(uses)	(5,000)	0	0	(5,000)
Net change in fund balances	29,947	(285,387)	20,279	(235,161)
Fund balance beginning of year	629,359	592,987	193,372	1,415,718
Fund balance end of year	\$ 659,306	307,600	213,651	1,180,557

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2008

Net change in fund balances - total governmental funds (page 17) \$ (235,161)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 789,283	
Depreciation expense	(272,098)	
Loss on disposal of capital assets	<u>(14,313)</u>	502,872

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 233,895

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

1,528

Changes in net assets of governmental activities (page 14) \$ 503,134

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008

	<u>School Nutrition</u>
Assets	
Cash and pooled investments	\$ 7,528
Interfund receivable	271
Accounts receivable	666
Inventories	5,448
Capital assets, net of accumulated depreciation (Note 5)	128,823
Total Assets	<u>142,736</u>
Liabilities	
Salaries and benefits payable	25
Unearned revenue	4,402
Total Liabilities	<u>4,427</u>
Net Assets	
Invested in capital assets	128,823
Unrestricted	9,486
Total Net Assets	<u>\$ 138,309</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	<u>\$ 249,827</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	108,911
Benefits	30,381
Services	1,506
Supplies	194,733
Depreciation	14,828
Total operating expenses	<u>350,359</u>
Operating loss	<u>(100,532)</u>
Non-operating revenues:	
State sources	3,468
Federal sources	78,037
Capital contribution	20,967
Transfer in	5,000
Interest on investments	159
Total non-operating revenues	<u>107,631</u>
Change in net assets	7,099
Net assets beginning of year	<u>131,210</u>
Net assets end of year	<u>\$ 138,309</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 248,859
Cash received from miscellaneous operating activities	494
Cash payments to employees for services	(139,439)
Cash payments to suppliers for goods or services	(177,718)
Net cash used in operating activities	<u>(67,804)</u>
Cash flows from non-capital financing activities:	
Interfund payment to General Fund	(271)
Transfer from the General Fund	5,000
State grants received	3,468
Federal grants received	61,034
Net cash provided used in non-capital financing activities	<u>69,231</u>
Cash flows from investing activities:	
Interest on investments	<u>159</u>
Net increase in cash and cash equivalents	1,586
Cash and cash equivalents at beginning of year	<u>5,942</u>
Cash and cash equivalents at end of year	<u>\$ 7,528</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (100,532)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	17,003
Depreciation	14,828
Decrease in inventories	1,518
Increase in accounts receivable	(666)
Decrease in salaries and benefits payable	(147)
Increase in unearned revenue	192
Net cash used in operating activities	<u>\$ (67,804)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 7,528</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received Federal commodities valued at \$17,003.

During the year ended June 30, 2008, the Nutrition Fund received contributed capital of \$20,967 from the Capital Projects Fund.

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Assets	
Cash and pooled investments	\$ 164
Liabilities	0
Net Assets	
Unrestricted	<u>\$ 164</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2008

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
Additions:	
Local sources:	
Donations	<u>\$ 64</u>
Deductions	<u> 0</u>
Change in net assets	64
Net assets beginning of year	<u> 100</u>
Net assets end of year	<u><u>\$ 164</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

(1) **Summary of Significant Accounting Policies**

The Earlham Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Earlham, Iowa, and the predominate agricultural territory in Dallas and Madison Counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Earlham Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Earlham Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Dallas and Madison Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's Non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund is accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary financial statements are reported using the "economic resources measurement focus. The Government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider has been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, is reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

Capital assets are depreciated using the straight line method over the following estimated lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the ended June 30, 2008, expenditures in the other expenditure function area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit of other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2008, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 1,215,681</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Due From and Due to Other Funds

The detail of inter-fund receivables and payables at June 30, 2008 is as follows:

Receivable Fund	Payable Fund	Amount
Nutrition	General	\$ 271

The Nutrition fund is repaying the General Fund for supplies incorrectly recorded in the prior year. The balance will be repaid by June 30, 2009.

(4) Transfers

The detail of transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
	Special Revenue:	
	Physical Plant and	
Debt Service	Equipment Levy	\$ 116,067
Nutrition	General	5,000
Total		\$ 121,067

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Physical Plant and Equipment Levy transferred funds for the payment on principal and interest on the Capital Loan Notes and Long term equipment note. The General Fund transferred funds to the Nutrition Fund for cash flow purposes, due to increased costs.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 182,614	20,967	0	203,581
Less accumulated depreciation	59,930	14,828	0	74,758
Business-type activities capital assets, net	\$ 122,684	6,139	0	128,823

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 10,000	363,930	0	373,930
Total capital assets not being depreciated	10,000	363,930	0	373,930
Capital assets being depreciated:				
Buildings	8,392,674	304,891	33,028	8,664,537
Improvements other than buildings	151,437	25,735	0	177,172
Machinery and equipment	880,667	94,727	22,946	952,448
Total capital assets being depreciated	9,424,778	425,353	55,974	9,794,157
Less accumulated depreciation for:				
Buildings	2,279,855	174,402	18,715	2,435,542
Improvements other than buildings	116,763	11,618	0	128,381
Machinery and equipment	728,200	86,078	22,946	791,332
Total accumulated depreciation	3,124,818	272,098	41,661	3,355,255
Total capital assets being depreciated, net	6,299,960	153,255	14,313	6,438,902
Governmental activities capital assets, net	\$ 6,309,960	517,185	14,313	6,812,832

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 29,948
Support services:	
Administrative	9,189
Operation and maintenance of plant	22,125
Transportation	24,816
	86,078
Unallocated depreciation	186,020
Total governmental activities depreciation expense	\$ 272,098
Business-type activities:	
Food services	\$ 14,828

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General Obligation Bond	\$ 2,705,000	0	140,000	2,565,000	150,000
Capital Loan Note	470,000	0	85,000	385,000	90,000
Telephone lease	8,895	0	8,895	0	0
Total	\$ 3,183,895	0	233,895	2,950,000	240,000

Capital Loan Notes

Details of the District's June 30, 2008 Capital Loan Note indebtedness that is paid by the Physical Plant and Equipment Levy Fund is as follows:

Year Ending June 30,	Issue dated February 1, 2002				
	Interest Rates		Principal	Interest	Total
2009	4.40	% \$	90,000	17,535	107,535
2010	4.50		95,000	13,375	108,375
2011	4.60		100,000	9,300	109,300
2012	4.70		100,000	4,700	104,700
Total			\$ 385,000	44,910	429,910

General Obligation Bonds Payable

Details of the District's June 30, 2008 General Obligation bonded indebtedness is as follows:

Year Ending June 30,	Issue dated February 1, 2002				
	Interest Rates		Principal	Interest	Total
2009	4.50	% \$	150,000	122,754	272,754
2010	4.50		155,000	116,004	271,004
2011	4.50		160,000	109,029	269,029
2012	4.50		165,000	101,829	266,829
2013	4.50		175,000	94,404	269,404
2014	4.60		185,000	86,529	271,529
2015	4.63		195,000	78,019	273,019
2016	5.00		200,000	69,000	269,000
2017	5.00		215,000	59,000	274,000
2018	5.00		225,000	48,250	273,250
2019	5.00		235,000	37,000	272,000
2020	5.00		245,000	25,250	270,250
2021	5.00		260,000	13,000	273,000
Total			\$ 2,565,000	960,068	3,525,068

Early Retirement

The District offers a voluntary early retirement plan to its employees. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 20% of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay plus 50% of unused sick leave. There were no early retirement benefits paid by the District for year ended June 30, 2008.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by

State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007, 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$195,403, \$173,168, \$140,503, respectively, equal to the required contributions for each year.

(8) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$207,424 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Budget Over-expenditure

During the year ended June 30, 2008, expenditures in the other expenditure functional area exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

EARLHAM COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 2,890,515	249,986	3,140,501	3,666,528	3,666,528	(526,027)
State sources	3,309,388	3,468	3,312,856	3,438,392	3,438,392	(125,536)
Federal sources	142,997	78,037	221,034	185,000	185,000	36,034
Total revenues	6,342,900	331,491	6,674,391	7,289,920	7,289,920	(615,529)
Expenditures:						
Instruction	3,785,466	0	3,785,466	4,050,000	4,050,000	264,534
Support services	1,518,995	0	1,518,995	2,403,431	2,403,431	884,436
Non-instructional programs	0	350,359	350,359	450,000	450,000	99,641
Other expenditures	1,268,600	0	1,268,600	1,093,963	1,214,056	(54,544)
Total expenditures	6,573,061	350,359	6,923,420	7,997,394	8,117,487	1,194,067
Deficiency of revenues under expenditures	(230,161)	(18,868)	(249,029)	(707,474)	(827,567)	578,538
Other financing sources(uses), net	(5,000)	25,967	20,967	3,500	3,500	17,467
Excess(deficiency)of revenues and other financing sources over(under)expenditures and other financing sources(uses)	(235,161)	7,099	(228,062)	(703,974)	(824,067)	596,005
Balance beginning of year	1,415,718	131,210	1,546,928	662,967	662,967	883,961
Balance end of year	\$ 1,180,557	138,309	1,318,866	(41,007)	(161,100)	1,479,966

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EARLHAM COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budgeted amendment increasing budgeted expenditures by \$120,093.

During the year ended June 30, 2008, expenditures in the other expenditure functional area exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

EARLHAM COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	Special Revenue Funds					
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
Assets						
Cash and pooled investments	\$ 88,207	34,056	78,746	201,009	3,839	204,848
Receivables:						
Property tax:						
Current year delinquent	1,583	0	2,511	4,094	4,220	8,314
Succeeding year	85,000	0	157,951	242,951	273,154	516,105
Accounts	0	2,835	0	2,835	0	2,835
Total Assets	\$ 174,790	36,891	239,208	450,889	281,213	732,102
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 0	2,346	0	2,346	0	2,346
Deferred revenue:						
Succeeding year property tax	85,000	0	157,951	242,951	273,154	516,105
Total liabilities	85,000	2,346	157,951	245,297	273,154	518,451
Fund balances:						
Reserved for debt service	0	0	0	0	8,059	8,059
Unreserved fund balances	89,790	34,545	81,257	205,592	0	205,592
Total fund balances	89,790	34,545	81,257	205,592	8,059	213,651
Total Liabilities and Fund Balances	\$ 174,790	36,891	239,208	450,889	281,213	732,102

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EARLHAM COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	Special Revenue Funds					Total
	Manage-	Physical				Nonmajor
	ment	Plant and	Equipment	Special	Debt	Governmental
	Levy	Student	Levy	Revenue	Service	Funds
	Activity					
REVENUES:						
Local sources:						
Local tax	\$ 99,863	0	159,361	259,224	267,912	527,136
Other	2,123	170,901	3,341	176,365	1,611	177,976
TOTAL REVENUES	101,986	170,901	162,702	435,589	269,523	705,112
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	0	168,769	5,467	174,236	0	174,236
Support services:						
Administration services	0	0	0	0	800	800
Operation and maintenance						
of plant services	91,193	0	6,160	97,353	0	97,353
Student transportation	0	0	28,423	28,423	0	28,423
Other expenditures:						
Long-term debt:						
Principal	0	0	0	0	233,895	233,895
Interest and fiscal charges	0	0	0	0	150,126	150,126
TOTAL EXPENDITURES	91,193	168,769	40,050	300,012	384,821	684,833
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER)						
EXPENDITURES	10,793	2,132	122,652	135,577	(115,298)	20,279
OTHER FINANCING SOURCES(USES):						
Transfers in	0	0	0	0	116,067	116,067
Transfers out	0	0	(116,067)	(116,067)	0	(116,067)
Total other financing sources(uses)	0	0	(116,067)	(116,067)	116,067	0
EXCESS OF REVENUES AND OTHER						
FINANCING SOURCES OVER EXPENDITURES						
AND OTHER FINANCING USES	10,793	2,132	6,585	19,510	769	20,279
FUND BALANCE BEGINNING OF YEAR	78,997	32,413	74,672	186,082	7,290	193,372
FUND BALANCE END OF YEAR	\$ 89,790	34,545	81,257	205,592	8,059	213,651

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EARLHAM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- -tures	Balance End of Year
Athletic	\$ 6,155	89,447	95,170	432
Drill Team	601	2,774	1,475	1,900
General Student Activity	1,186	7,054	7,426	814
Drama	2,301	2,391	849	3,843
Middle School Musical	526	0	0	526
Jack Oatts Festival	0	4,178	2,040	2,138
Cheerleaders	1,082	7,112	7,106	1,088
FFA	5,523	17,783	13,887	9,419
FCCLA	1,538	1,706	1,174	2,070
National Honors Society	869	296	535	630
Annual	1,563	7,471	7,384	1,650
Science Club	102	0	0	102
Art Club	613	236	618	231
Spanish Club	156	8,495	8,495	156
High School Student Council	2,013	5,845	4,207	3,651
Middle School Student Council	802	5,048	5,436	414
Class of 2007	989	0	989	0
Class of 2008	2,646	0	2,646	0
Class of 2009	1,051	8,148	7,276	1,923
Class of 2010	2,697	2,917	2,056	3,558
Total	\$ 32,413	170,901	168,769	34,545

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EARLHAM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30,				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 2,230,997	2,078,124	2,047,415	1,818,495	1,621,106
Tuition	347,771	333,225	384,846	336,582	329,086
Other	311,747	401,244	259,814	293,339	338,103
State sources	3,309,388	2,983,782	2,626,931	2,258,234	2,158,150
Federal sources	142,997	128,331	111,875	132,318	92,648
Total	\$ 6,342,900	5,924,706	5,430,881	4,838,968	4,539,093
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$ 2,589,742	2,289,655	2,136,718	1,866,121	1,716,357
Special instruction	539,737	540,525	425,315	534,336	473,000
Other instruction	655,987	681,938	569,161	481,314	447,460
Support services:					
Student services	71,135	82,723	78,266	71,110	68,760
Instructional staff services	109,127	114,410	117,377	113,857	87,247
Administration services	625,624	564,344	550,297	516,682	464,359
Operation and maintenance					
of plant services	520,895	557,528	510,278	645,614	684,453
Transportation services	192,214	160,321	141,083	152,665	112,968
Central services	0	0	0	0	52,942
Other expenditures:					
Facilities acquisitions	677,155	19,452	38,921	353,456	2,246,520
Long-term debt:					
Principal	233,895	220,000	210,000	200,000	190,000
Interest and other charges	150,126	167,259	177,934	177,359	186,309
AEA flow-through	207,424	188,419	170,580	149,175	146,376
Total	\$ 6,573,061	5,586,574	5,125,930	5,261,689	6,876,751

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Earlham Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Earlham Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 9, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Earlham Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Earlham Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Earlham Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Earlham Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Earlham Community School District's financial statements that is more than inconsequential will not be prevented or detected by Earlham Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Earlham Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-08 is a material weakness.

Compliance and Other Matters

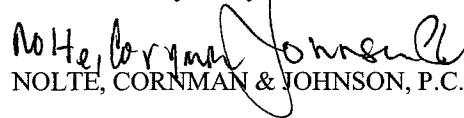
As part of obtaining reasonable assurance about whether Earlham Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Earlham Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Earlham Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Earlham Community School District and other parties to whom Earlham Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Earlham Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

February 9, 2009

EARLHAM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

- I-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing and bank deposits are done by one person and the posting of the cash receipts journal is done by a different person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- I-B-08 Timely Deposits - We noted during our audit that deposits for the Student Activity fund concerning concession and gate monies were prepared but may not be taken to the bank for deposit until several days later.

Recommendation - All receipts should be deposited when received. The district should review procedures with staff to ensure that the deposits are made timely.

Response -The statement is not entirely correct. There were instances where the funds were not returned to the office for counting on a timely basis. Also, it was noted that the dates on our internal audit slips reflected the date that the money was counted, not the actual date of the event which created what looked a lag in depositing when there actually wasn't one.

We have tightened up our controls over the activity funds and continue to work with the activity sponsors to make sure things are turned back into the office timely and are counted and deposited as soon as possible.

Conclusion - Response accepted.

- I-C-08 Gate Admissions - It was noted that the District does not utilizes pre-numbered tickets for all events that requires an admission.

Recommendation – The District should have internal control procedures established for handling cash for all activity events, including athletic events and communicate the policies and procedures to the individuals involved. The Board would of course, approve any policies that the District's business office should be involved in developing the detailed procedures. At a minimum the procedures should be:

- a. Cash or change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.

- c. Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d. At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold including the amount of the beginning cash.
- e. To reconcile, the next unsold ticket number less the beginning ticket number determines the number of tickets sold. This number times the price per ticket equals total sales. Total sales compared to total collected should reconcile. Variances, if any should be minimal.
- f. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling the cash.
- g. The cash and change box should be turned into the Athletic Director (AD) or designee responsible for the “accounting” function at the event.
- h. The AD or designee should be required to take the cash collections to the night depository at the bank or at a minimum, lock the cash collections in the District’s vault or other secure location at the District’s office for deposit on the next working day. District procedures should prohibit individuals from taking cash collections home.
- i. A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Response – The District does not use pre-numbered tickets. Our facility does not lend itself to such a procedure. We do have a reconciliation process and double counting of funds before they are returned to the office. The funds are secured by the District’s administration after the events.

We will continue to monitor our procedures and implement further controls where possible.

Conclusion - Response accepted.

- I-D-08 Payroll Calculations - We noted during our audit that an Employee’s hourly wage was incorrectly calculated and entered into the payroll system.

Recommendation: The district should reimburse the employee the shortage in their wage. The District should review and implement policies ensuring the correct wage is entered in the payroll system.

Response - This was a simple data entry error. The employee has been fully reimbursed for the shortfall. We are looking to cross train another employee in payroll and will have that individual review the new salary information.

Conclusion - Response accepted.

- I-E-08 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for personnel who are non-certified staff.

Recommendation - In an effort to comply with the Department of Labor requirements on wage per hour contracts, the District should keep track of the hours worked for non-

certified staff. The District should also review its payroll procedures to ensure that supporting documentation is kept for all employees who receive checks.

Response - We have implemented a time sheet for those non-certified staff covering contracted positions.

Conclusion - Response accepted.

EARLHAM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-08 Certified Budget - District disbursements for the year ended June 30, 2008 exceeded the amount budgeted in the other expenditures program area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will do closer monitoring our certified budget figures, so amendments can be done timely.

Conclusion - Response accepted.

- II-B-08 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-08 Business Transactions - Business transactions between the District and District officials and employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Mike Madren, Board President	Official	\$496

In accordance with the Chapter 279.7A of the code of Iowa, the above transactions with Mr. Madren do not appear to represent a conflict of interest

- II-E08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-08 Board Minutes - We noted one transfer transaction requiring Board approval which was not approved by the Board. The General Fund (6/24/08 transfer) transferred \$5,000 to the Nutrition Fund.

Recommendation- All fund transfers should be approved by the Board before being moved.

Response - The transfer of funds to the hot lunch fund was approved by the Board, during the approval of the invoices for the month. It was discussed at that time. If it needs to be noted, that prior approval is necessary, then please, state it as such in the original comment.

It is difficult to know what the needs are going to be, but we will make sure to get prior approval for fund transfers.

Conclusion - Response accepted.

- II-G-08 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-J-08 Student Activity Fund-Individuals Receiving Checks- We noted during our audit that the District wrote checks to individuals from the Student Activity fund. A group (not affiliated with the school) was fundraising for a trip to Europe and performed a District sponsored fundraiser to raise funds for the trip. The profits of this fundraiser were handed over to the outside organization.

If the trip was sponsored the District, it should be recorded on the District's books. If the trip was sponsored by the outside group, then the District should not allow an outside group to use the District's name or federal tax identification number. The District issued a check for the profits to Jennifer Knight in the amount of \$3,647.05. According to the Uniform Accounting Manual from the Department of Education, no funds from a student organization may be distributed to individuals.

Recommendation - The District should, under no circumstances allow another organization to fundraise using their tax exempt status. The District should refrain from this type of fundraiser to avoid losing the District's tax exempt status.

Response - There was a big miscommunication with this item. This is most definitely affiliated with the school. It was just not a formalized group like FFA or Student Council.

Jennifer Knight is our middle school Social Studies teacher and is the head of this group. It is a group of students who must complete an application with questions, about why they want to go, what they hope to learn, etc. They must provide 2 letters of recommendation from adults. Before the trip, they meet several times and do presentations about things they will encounter, such as, language, cultural, or currency issues. They are required to keep a journal while on the trip. Other staff members serve as chaperones for the trip. So, the group is fully endorsed and supported by the administration and the school board.

In response to the disbursement of the fundraiser money, no one involved thought about contacting the travel company, to see if the funds could be sent to them for disbursements to the student accounts. We have since, done this, and are now forwarding any fundraiser proceeds to them on behalf of the students.

For future trips, we have set up an activity account and will have a procedure in place to handle this properly.

Conclusion - Response accepted.